



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: September 2, 2014

TO: Legislative Finance Committee Members

FROM: Kris Wilkinson, Senior Fiscal Analyst

RE: LFD options for analysis of State IT costs

The State Information Technology Services Division issued a report, Montana Information Technology Expenditures dated September 1, 2013. The report concludes that Montana could save \$80.7 million annually if the ratio of information technology (IT) spending as a percentage of the state's operating budget of 3.73% in FY 2012 was reduced to the average of the peer states of 1.95%. The purpose of this memorandum is to provide the Legislative Finance Committee (LFC):

- o Identification of potential issues with the methodology used to prepare the report
- o Options for further work on IT expenditures by the Legislative Fiscal Division

LFD staff, through examination of the report and discussion with SITSD staff responsible for issuing the report, have identified potential issues with the methodology used to prepare the report. These include items that may understate the amount of IT expenditures for Montana state government:

- o Identification of staff associated with IT expenditures was developed by examining staff with IT in the position description. This may understate the number of staff and related expenditures as program managers or accounting and budgeting staff working with IT are not included
- o Identification of IT operating costs utilized only those costs recorded in the state's accounting system using IT expenditure codes. This may understate the expenditures as the professional and consulting services expenditure code is also utilized by some accounting staff to record contracts for IT costs and left out of the calculation
- o Overhead costs for support services such as accounting, budgeting, or working with the Director's Office are not included

The report does highlight that the expenditures are conservatively low.

The report includes all expenditures recorded to IT codes in FY 2004, FY 2009, and FY 2012. This would include projects approved in the long range IT bill (HB 10) which are large, capital IT projects that require multiple years to develop and benefit the state agency for a number of years in the future. Including the annual costs for these projects in the development period may overstate the amount of IT spending.

Peer state comparisons were developed utilizing published IT expenditure data from public web sites. Requirements for recording items to IT expenditures may:

- o Vary from state to state

- o Not be comprehensive as other state's may also have staff supporting IT functions and operating costs that are not identified using IT expenditure codes
- o Could include users of the systems such as data entry positions which are using the system not building or modifying IT systems for users

Interviews with staff within peer states were not completed.

The argument that centralization is the answer to reducing overall costs is not well developed in relation the data developed for Montana or the peer states. The report examines areas such as economies of scale and breadth of IT service between Montana and the identified peer states. When this does not identify the reasons Montana's IT costs appear to be higher than its peers, the report then discusses consolidation. The link to the previous data is not clearly presented and the data relative to consolidation is for all states, not those presented earlier as peers.

The report's conclusion that the state could save \$80.7 million annually implies that the state is currently duplicating services, paying for higher costs for services than needed, or staffing IT functions at higher levels than needed. The report does not identify specific areas that are driving these costs in Montana or what changes are needed to reduce specific costs.

Options for the LFC to consider should the LFC wish the LFD to conduct additional work on IT expenditures include:

- 1) Utilize the Montana Information Technology Report format to develop comprehensive IT expenditures for Montana and selected peer states. Include identification of costs drivers such as duplication of services and costs or high IT staffing and related cost savings
- 2) Examine the costs of private industry IT expenditures compared to those in Montana. Comparisons would need to be with similarly sized industries that have multiple services provided such as health care or highway construction. This may represent a challenge as private industry requirements may vary significantly from those for state governments.